MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

BFN3204 – CREDIT ANALYSIS AND LENDING MANAGEMENT

(All sections / Groups)

14 FEBRUARY 2023
9.00 am – 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 3 **(THREE)** pages excluding cover page.
2. Answer **ALL FOUR** questions in the answer booklet provided.
3. Marks allocations are shown at the end of each question.

Question 1 (25 marks)

Contrast and compare the CAMPARI framework for credit analysis with the 6 C's of credit analysis.

(25 marks)

Question 2 (25 marks)

a) Superglove Manufacturing has an outstanding RM11 million loan with BFNbank for the current year. As required in the loan agreement, Superglove reports selected data items to the bank each month. Superglove has announced within the past 30 days that it is switching to new methods for calculating depreciation of its fixed assets and for valuing inventories. The firm's board of directors is planning to discuss at its next meeting a proposal to reduce stock dividends in the coming year.

Superglove Financial Data 2021

	May	April	March	February	January
Cash account (RM millions)	33	57	51	44	43
Projected sales (RM millions)	298	295	294	291	288
Stock price per share (monthly average)	6.60	6.50	6.40	6.25	6.50
Capital structure (equity/debt ratio in percent)	32.8%	33.9%	34.6%	34.9%	35.7%
Liquidity ratio (current assets/ current liabilities)	1.10x	1.23x	1.35x	1.39x	1.25x
Earnings before interest and taxes (EBIT; RM millions)	15	14	13	11	13
Return on assets (ROA; percent)	3.32%	3.25%	2.98%	3.13%	3.11%
Sales revenue (RM millions)	290	289	290	289	287

Based on the cash and liquidity management, as well as the actual sales and projected sales, is there any indication that a problem loan might occur?

(15 marks)

b) Briefly explain the four stages of the general collection system, the collection device and the debtors involved for each collection stage.

(10 marks)

Continued...

Question 3 (25 marks)

As a new credit trainee for Evergreen National Bank, you have been asked to evaluate the financial position of Hamilton Automotive, which has asked for renewal of and an increase in its six-month credit line. Hamilton now requests a RM7 million credit line, and you must draft your first credit opinion for a senior credit analyst. Unfortunately, Hamilton just changed management, and its financial report for the last six months was not only late but also garbled. As best as you can tell, its sales, assets, operating expenses, and liabilities for the six-month period just concluded display the following patterns:

RM Millions	January	February	March	April	May	June
Net sales	48.1	47.3	45.2	43.0	43.9	39.7
Cost of goods sold	27.8	28.1	27.4	26.9	27.3	26.6
Selling, administrative, and other expenses	19.2	18.9	17.6	16.5	16.7	15.3
Depreciation	3.1	3.0	3.0	2.9	3.0	2.8
Interest cost on borrowed funds	2.0	2.2	2.3	2.3	2.5	2.7
Expected tax obligation	1.3	1.0	0.7	0.9	0.7	0.4
Total assets	24.5	24.3	23.8	23.7	23.2	22.9
Current assets	6.4	6.1	5.5	5.4	5.0	4.8
Net fixed assets	17.2	17.4	17.5	17.6	18.0	18.0
Current liabilities	4.7	5.2	5.6	5.9	5.8	6.4
Total liabilities	15.9	16.1	16.4	16.5	17.1	17.2

Hamilton has a 16-year relationship with the bank and has routinely received and paid off a credit line of RM4 million to RM5 million. The department's senior analyst tells you to prepare because you will be asked for your opinion of this loan request (though you have been led to believe the loan will be approved anyway, because Hamilton's president serves on Evergreen's board of directors).

a) Briefly explain your recommendation and your reasons on this loan application.
(16 marks)

b) Briefly explain other data that you feel should be supplied by this customer?
(9 marks)

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Question 4 (25 marks)

a) The Johnson family has applied for a RM50,000 loan for home renovation. Bob Johnson and his wife are an accountant since 5 years ago. They have three children. The family own their home, which they purchased six months ago, and have an average credit rating, with some late bill payments. They have a telephone, but hold only a current account with a bank and a few savings bonds. Mr. Johnson has a RM35,000 life insurance policy with a cash surrender value of RM1,100. Suppose the lender uses the credit scoring system presented below and denies all credit applications scoring fewer than 360 points. Is the Johnson family likely to get their loan? Calculate the family's credit score. (Hint: For the occupation factor take the average for the husband's and wife's occupations.)

(20 marks)

Factors for Predicting Credit Quality	Point Value
1. Customer's occupation or line of work:	
Professional or business executive	100
Skilled worker	80
Clerical worker	70
Student	50
Unskilled worker	40
Part-time employee	20
2. Housing status:	
Owns home	60
Rents home or apartment	40
Lives with friend or relative	20
3. Credit rating:	
Excellent	100
Average	50
No record	20
Poor	00
4. Length of time in current job:	
More than one year	50
One year or less	20
5. Length of time at current address:	
More than one year	20
One year or less	10
6. Telephone in home or apartment:	
Yes	20
No	00
7. Number of dependents reported by customer:	
None	30
One	30
Two	40
Three	40
More than three	20
8. Deposit accounts held:	
Both checking and savings	40
Savings account only	30
Checking account only	20
None	00

b) List down the 5-litigation process for debt recovery. (5 marks)

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